At the community level, increased numbers of vacant properties, due to imminent and completed foreclosures, led to increased crime and blight. Local governments were hit hard due to the increased costs of policing and securing vacant homes and the reduction in tax revenue that followed the inevitable decline in property values. Between mid-2007 and the end of 2009 alone, state and local governments lost $917 million in property taxes. These consequences motivated several cities and counties to sue lenders that they alleged targeted minority neighborhoods. Municipalities also attempted to protect their citizens through a variety of other strategies, including ordinances and nuisance litigation, but encountered significant legal roadblocks.

The high foreclosure rate and the number of vacant properties in some communities lead to the rise of “zombie” properties. Zombie properties are homes left in a form of legal limbo when the foreclosing party intentionally delays or abandons the foreclosure. The homeowner may have moved away when the servicer began to foreclosure, or the home may remain occupied by an owner or tenant who is reluctant or unable to maintain it. The effects of zombie properties are greatest in low-income and moderate-income neighborhoods because servicers are less likely to maintain properties in these neighborhoods, whether owner-occupied or not. Widespread stalled foreclosures “create[] negative ripple effects on families and neighborhoods that exceed the bad effects of foreclosures in themselves.”

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Footnotes


157 [157] See § 6.3.4 [1], infra (discussing these cases). See also Kathleen C. Engel, Local Governments and Risky Home Loans, 69 SMU L. Rev. 609 (2016) (discussing the fate of local government lawsuits based on public nuisance, Fair Housing Act, and housing code violation claims).

158 [158] Kathleen Engel, Local Governments and Risky Home Loans, 69 SMU L. Rev. 609 (2016) (detailing these efforts and why municipalities are severely limited in their ability to act against commercial interests that harm their communities).


threaten the desirability and stability of the surrounding neighborhood. The estimates show that less affluent neighborhoods are more likely to have higher numbers of zombie properties than more affluent neighborhoods. Lower-income neighborhoods, therefore, face a more serious threat of being negatively impacted by poorly maintained zombie properties than higher-income neighborhoods.”).

161 [161] Linda E. Fisher, Shadowed by the Shadow Inventory: A Newark, New Jersey, Case Study of Stalled Foreclosures and Their Consequences, 4 U.C. Irvine L. Rev. 1265, 1292 (2014).

These effects include: declines in home prices and new construction, positive correlation with vacancies, deterioration in the appearance and integrity of the neighborhood, and increases in crime and fires due to the presence of squatters in the vacant homes. Id. at 1271–1272.

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[1] https://library.nclc.org/nclc/link/ML.06.03.04